

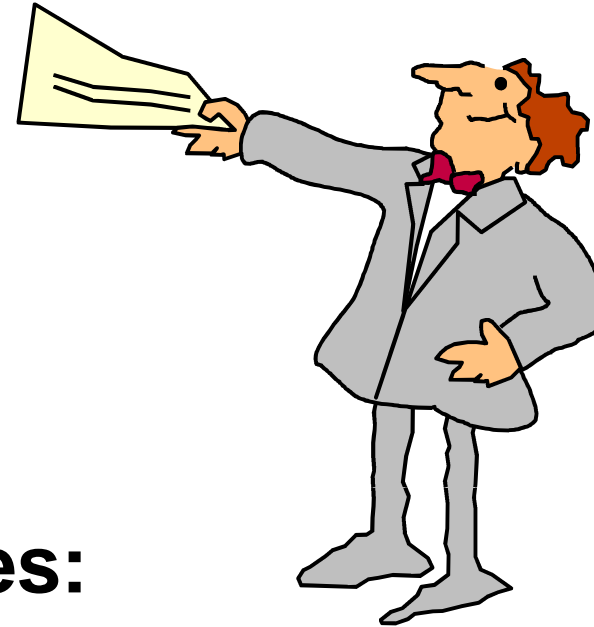
FINANCIAL MANAGEMENT GUIDE FOR FEDERALLY-FUNDED ORGANIZATIONS

MYTH: "Not-for-profit accounting is very different from accounting used by for-profit organizations."



For profit vs. not-for-profit

- Objectives
- Responsibility
- Certain accounting principles:
 - Accounting for contributions
 - Capitalizing & depreciating assets
 - Cash vs. accrual basis
 - Functional expense classification

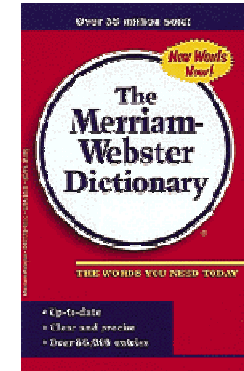


MYTH: "Profit" is a meaningless number for a not-for-profit organization."



GLOSSARY OF TERMS

The Accounting Process



1. The Accounting Process

Recording & reporting of transactions that affect the financial status of an organization.

2. Double-Entry Bookkeeping

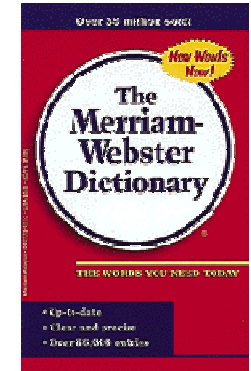
A method that records all financial transactions through the use of debits & credits.

3. Cash Basis Accounting

A method of accounting in which revenue is recorded when received and expenses are recorded when paid.

GLOSSARY OF TERMS

The Accounting Process



4. Accrual Basis Accounting

A method of accounting in which revenue is recorded when earned and expenses are recorded when incurred.

5. Accounts Payable

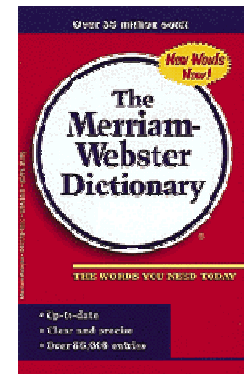
A liability representing an amount due to others.

6. Accounts Receivable

An asset representing an amount due from others.

GLOSSARY OF TERMS

The Accounting Process



7. Chart of Accounts

A list of account numbers to be used to record and report financial transactions.

8. Assets

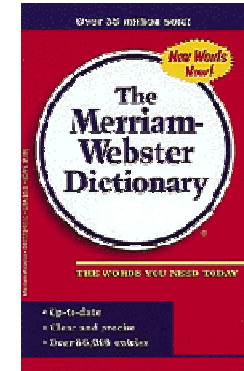
Resources of measurable financial value that an organization possesses (cash, accounts receivable, land, inventory, equipment, buildings).

9. Liabilities

A claim on the assets of an organization by an outsider or a financial obligation on the part of the organization.

GLOSSARY OF TERMS

The Accounting Process



10. Deferred Revenue

Unearned income or revenue received for an exchange transaction prior to delivery of services by the organization.

11. Fund Balance/Net Assets

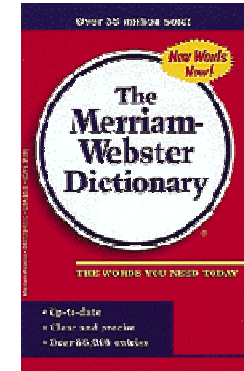
The difference between the organization's total assets and total liabilities.

12. Revenue

Gross receipts, price of goods sold, services (exchange transactions), donations, dues, etc. which increase assets and fund balance/net assets.

GLOSSARY OF TERMS

The Accounting Process



13. Expenses

Cost of services, goods or operations that decrease assets and fund balance/net assets.

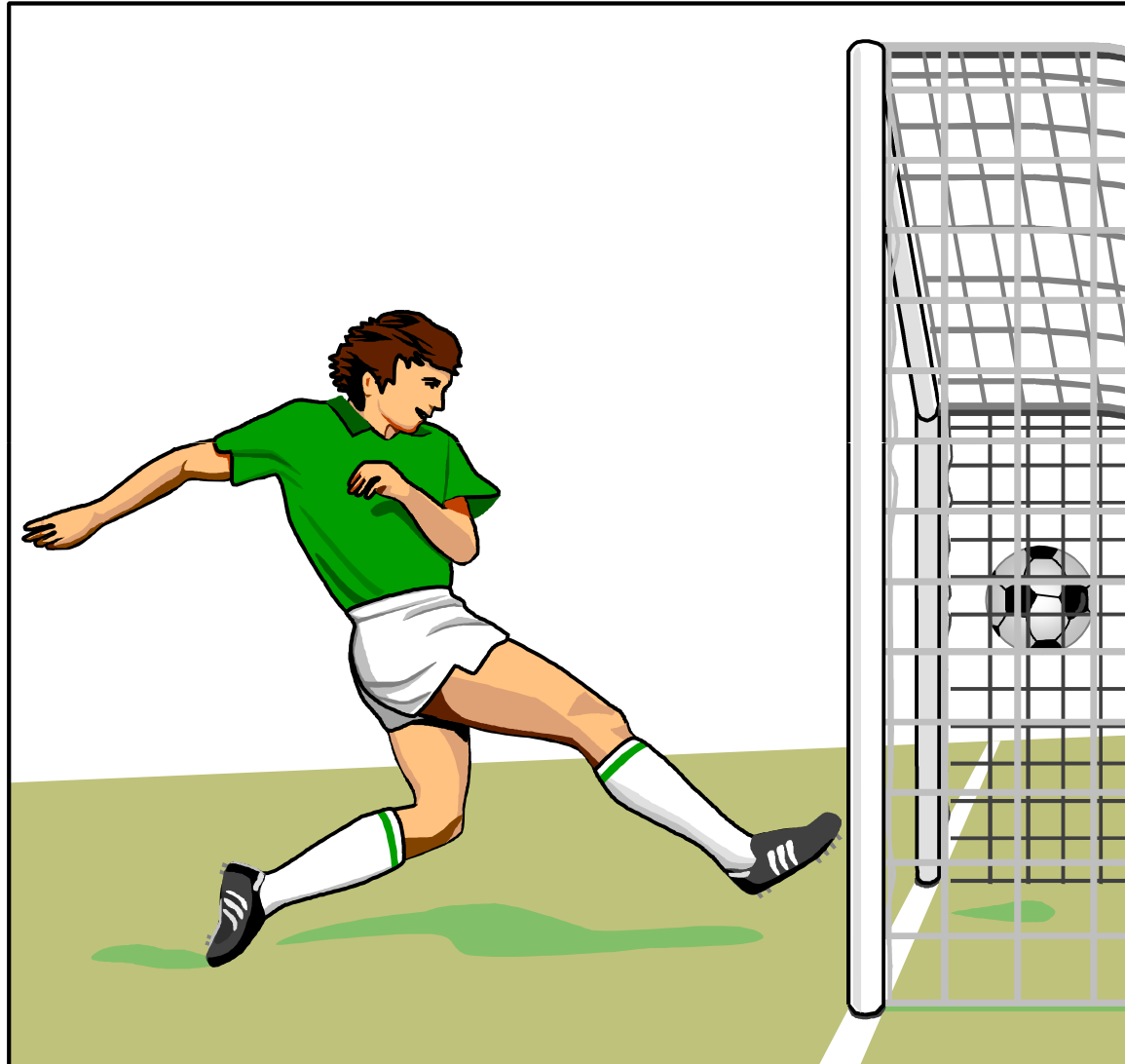
14. Prepaid Expense

An expense paid prior to the time it is incurred which is recorded as an asset in accrual basis accounting.

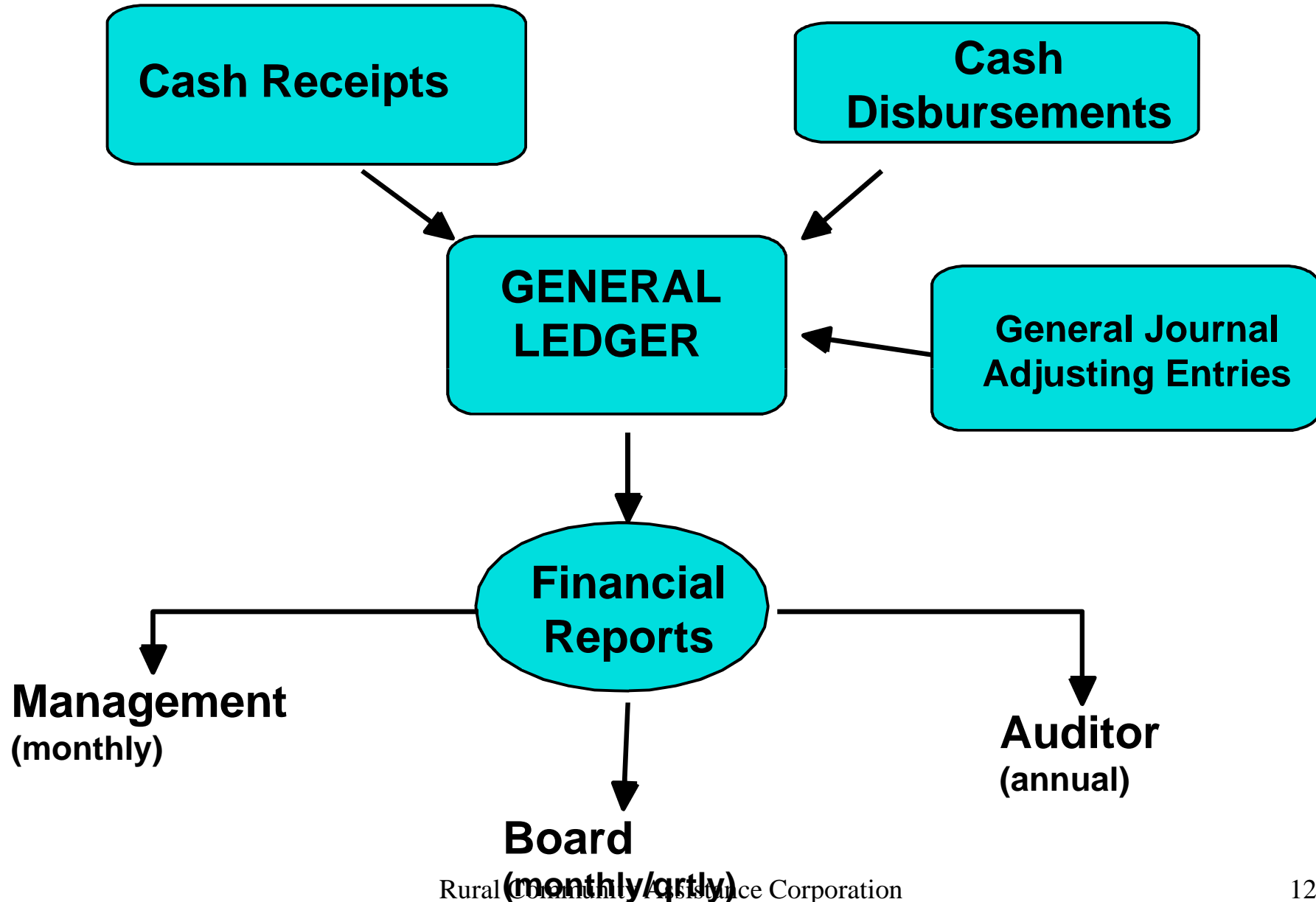
THE ACCOUNTING PROCESS



The GOAL of the accounting system



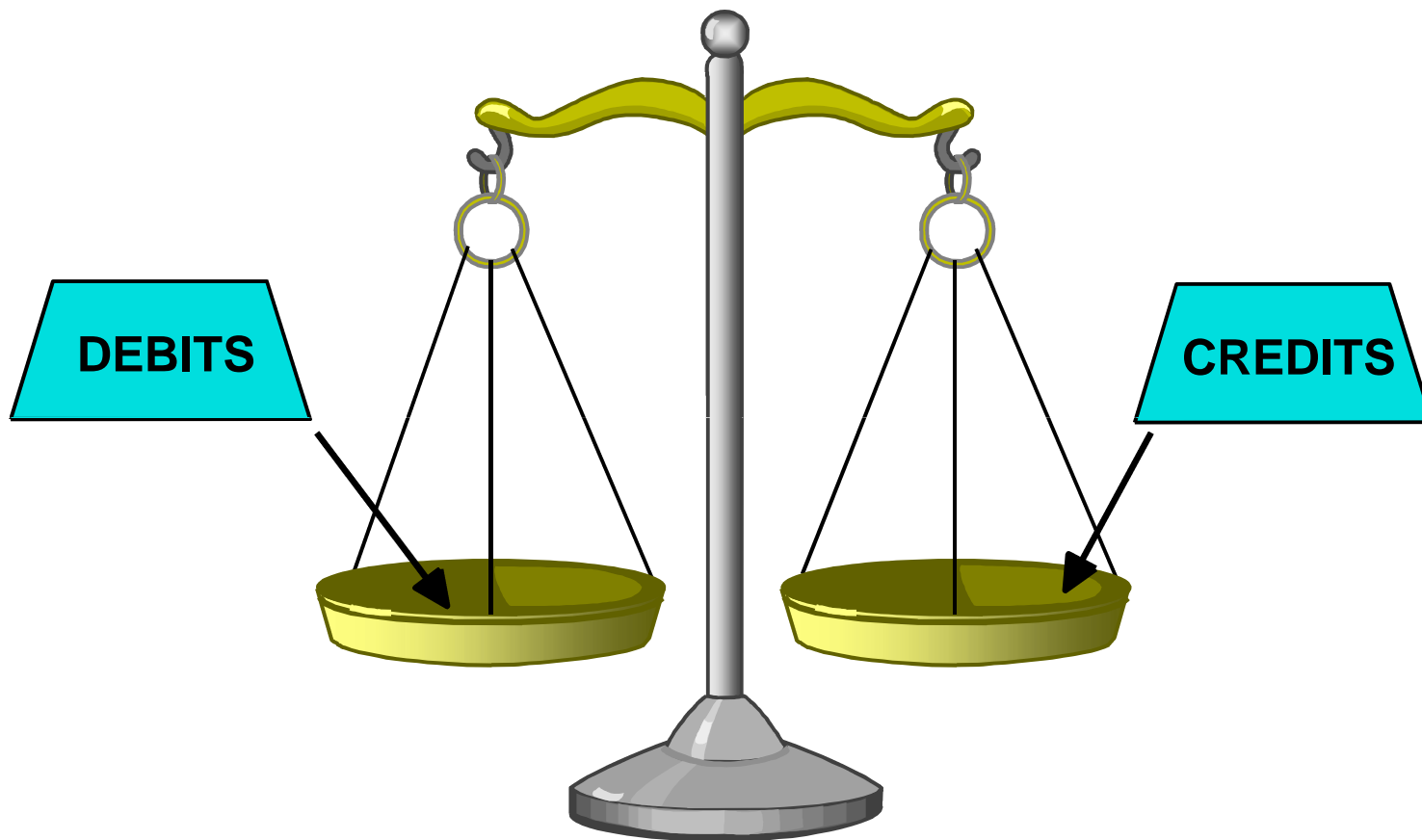
The Accounting Cycle



THE ACCOUNTING EQUATION

$$\begin{array}{lcl} \text{ASSETS} & = & \text{LIABILITIES} + \text{FUND BALANCE} \\ \boxed{\phantom{\text{What we have}}} & & \boxed{\text{(NET ASSETS)}} \\ \text{What we have} & & \text{(Revenue - Expenses)} \\ & & \boxed{\phantom{\text{Who owns it}}} \end{array}$$

Double-Entry Accounting



THE ACCOUNTING EQUATION

$$\text{ASSETS} = \text{LIABILITIES} + \text{FUND BALANCE} \\ \text{(NET ASSETS)} \\ \text{(Revenue - Expenses)}$$

DR	CR

DR	CR

DR	CR

DR	CR

DR = Debit
CR = Credit

CASH VS. ACCRUAL BASIS

Cash Basis Accounting

A method of accounting in which revenue is recorded when received and expenses are recorded when paid .

Accrual Basis Accounting

A method of accounting in which revenue is recorded when earned and expenses are recorded when incurred.

Cash Basis Accounting =

Record revenue when cash is received and expense when bills are paid

PROS

- Easier on day-to-day basis
- Tracks cash in and out



CONS

- Not accurate -don't know who owes and who is owed
- Not GAAP
- Can't record non-cash activity (depreciation, accruals)
- May give readers a false sense of security
- Income/expense not matched to correct period

Accrual Basis Accounting =

Record revenue when it is earned and expenses when they are incurred

PROS

- **More complete and accurate picture of organization's finances throughout the fiscal year**
- **Match income and expense to the correct period (Spread insurance premium)**
- **More meaningful comparison of actual to budget**

CONS

- **Much more complicated process and more work**
- **Hard for management & board to think in other than cash terms**



Modified Accrual Basis Options:

1. Income on cash basis & expenses on accrual basis

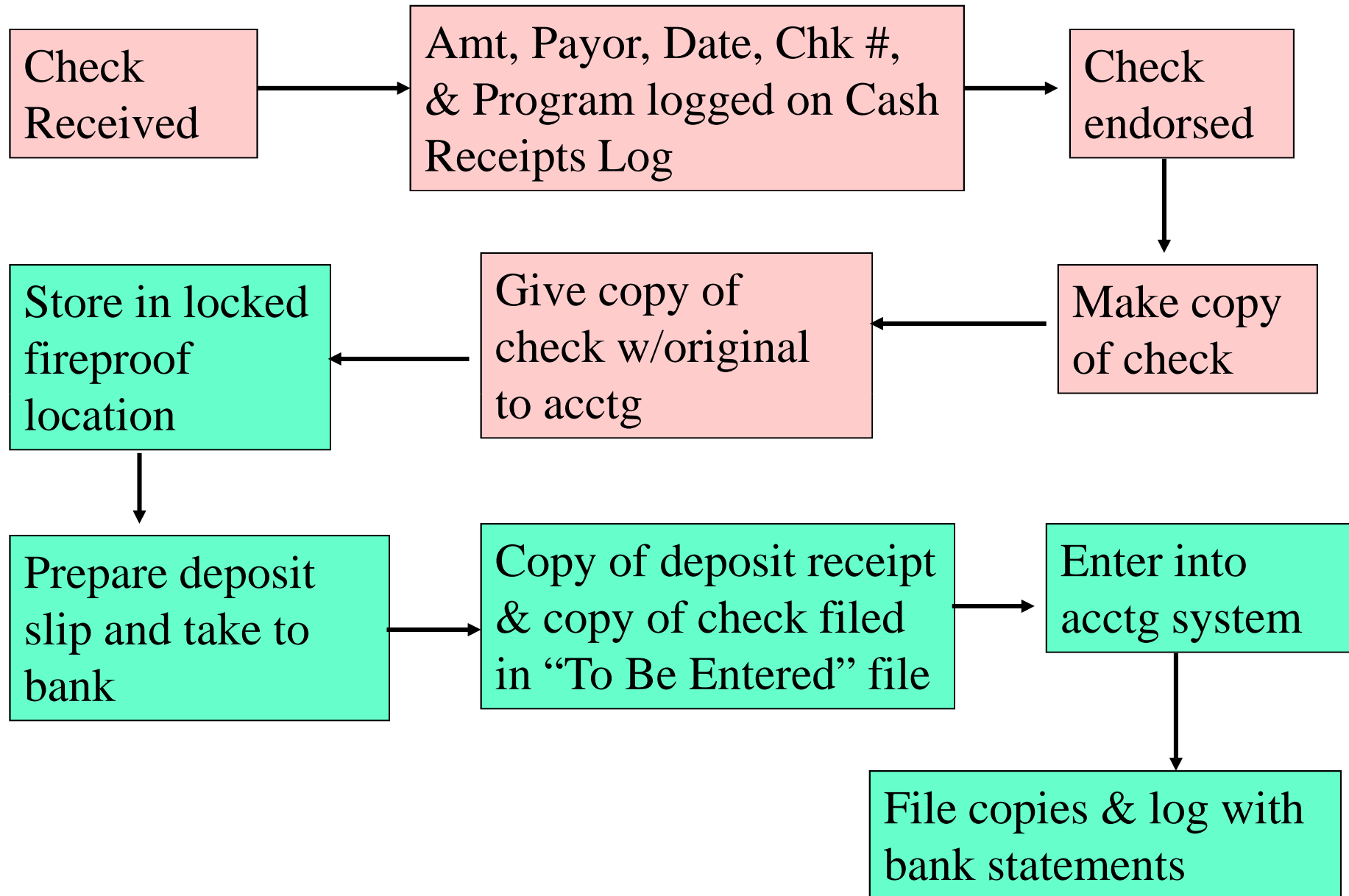
-OR-

2. Books on cash basis & reports on accrual basis

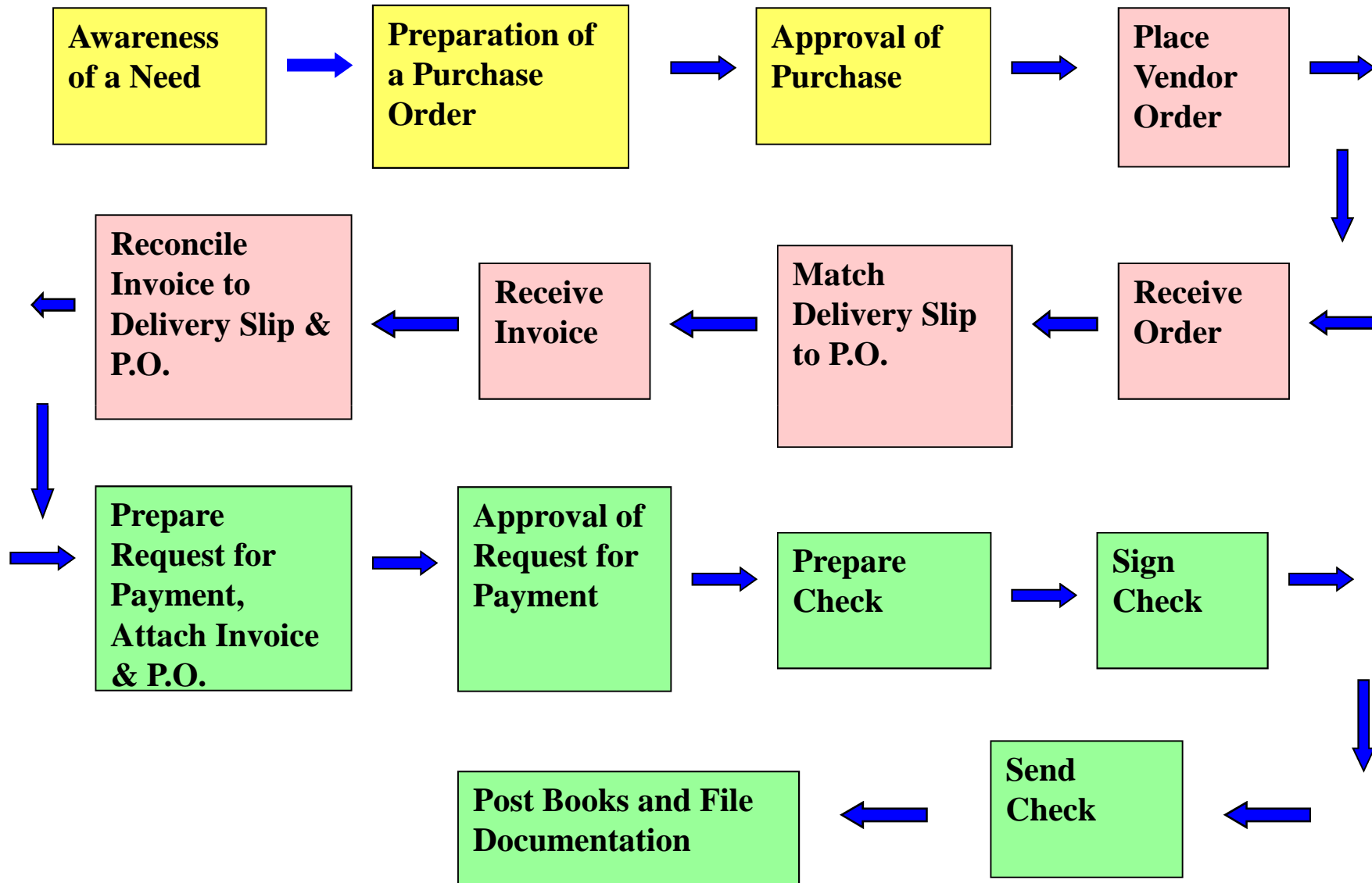
-OR-

3. Cash basis throughout fiscal year and accrual entries at fiscal year end to be GAAP.

Cash Receipts Procedures

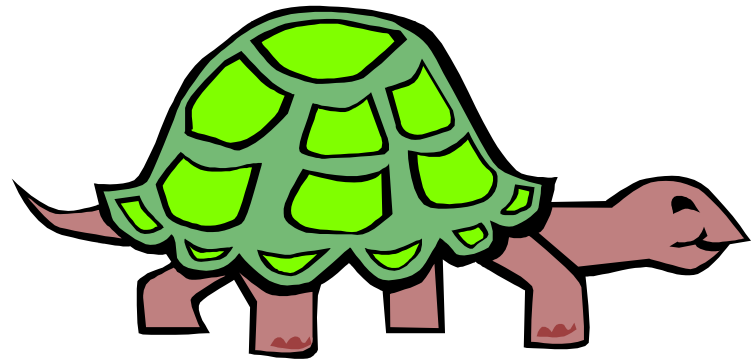


PURCHASE AND DISBURSEMENT PROCESS

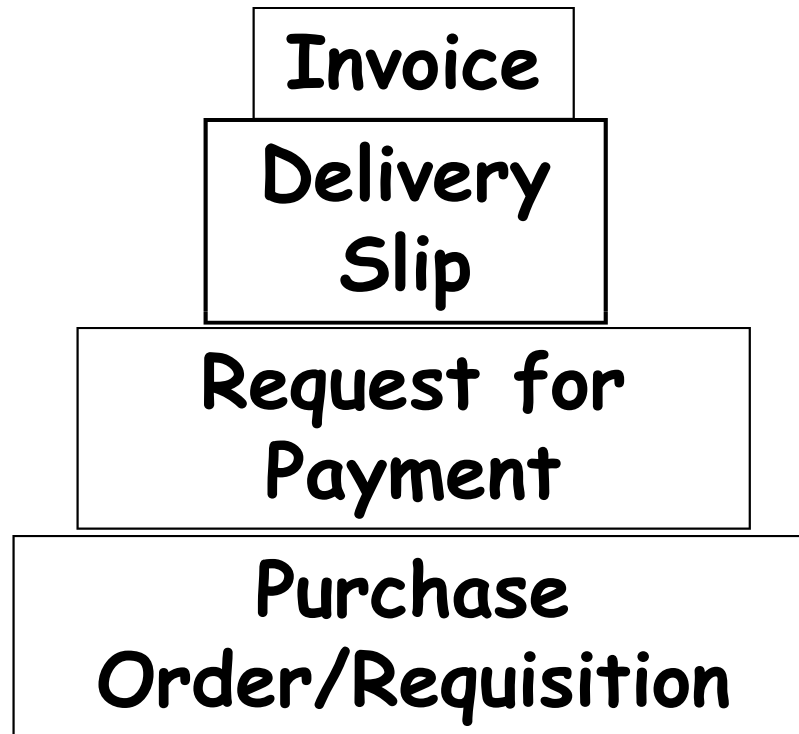


TYPES OF DOCUMENTATION

- Timesheets
- Leave Requests
- Purchase Orders/Requisitions
- Check Requests
- Travel Authorizations
- Petty Cash Vouchers
- Receipts!!
- Delivery Slips



DOCUMENTATION



BANK ACCOUNTS

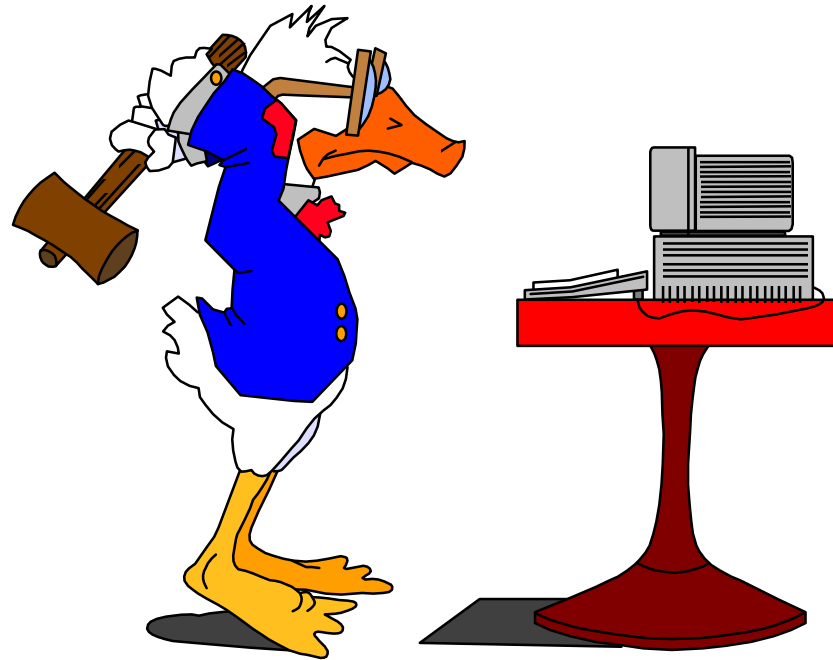
- **New bank account not required for each grant.**
- **Reconcile monthly by someone NOT responsible for deposits and disbursements.**
- **Reconciled monthly to the general ledger.**
- **Interest over \$250 annually on federal funds must be returned.**



ACCOUNTING SOFTWARE SYSTEMS



**MYTH: "If we keep our books
on a computer, the resulting financial
statements will always be completely
accurate."**

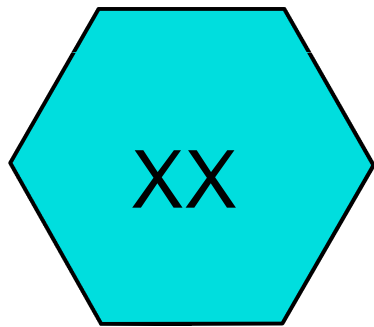


Required Books of Record

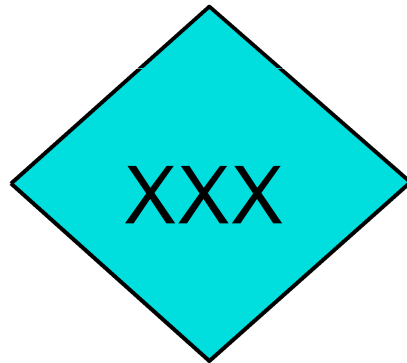
- **Cash Disbursements Journal**
- **Cash Receipts Journal**
- **General Journal**
- **General Ledger**
- **Payroll Journal**



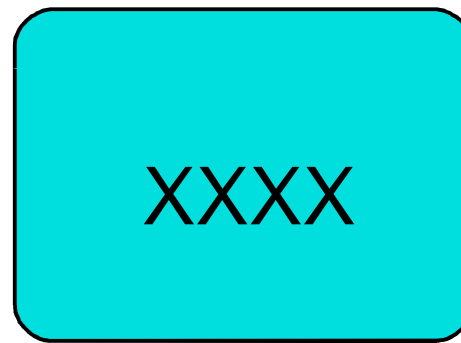
Ideal chart of accounts system



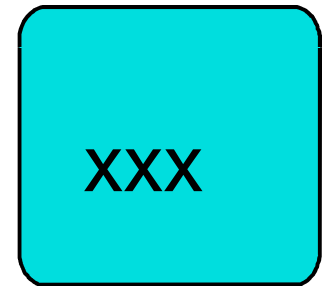
**Program
(Functional
category)**



**Funding
Source
(Cost
accounting)**



**General ledger
line item
(Natural
category)**



Subaccount

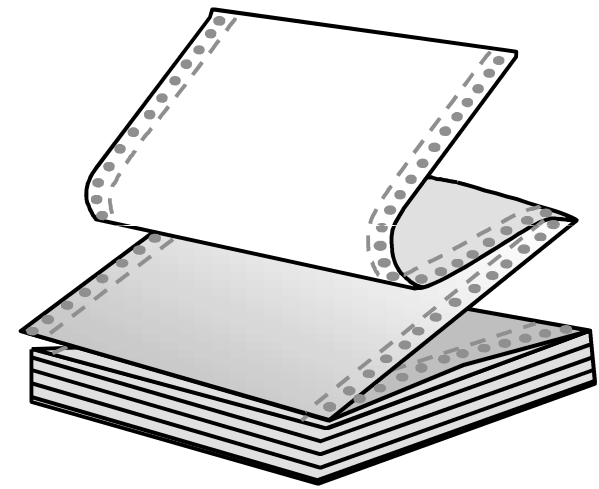
Developing your chart of accounts

- **What reports do you want to prepare?**
- **What financial analysis do you perform on a regular basis?**
- **What level of detail do you require?**
- **What is your capacity for tracking financial information?**



FINANCIAL REPORTING NEEDS OF FEDERALLY- FUNDED ORGANIZATIONS

- **Financial control**
- **Restricted expenses**
- **Allocation of expenses**
- **Contract periods**
- **Underspending & overspending**
- **Two sets of reports**



Factors to consider when choosing accounting software:

- **Ease in tracking funding sources**
- **Hardware requirements**
- **Reporting flexibility**
- **Business vs. fund accounting**
- **Ease in doing allocations & cost accounting**



Should we change accounting software???

- **DOS vs. Windows**
- **Using other software (e.g. spreadsheets) to prepare reports**
- **Allocation of direct & indirect expenses**
- **# and complexity of programs/funding sources**

INTERNAL CONTROLS



GLOSSARY OF TERMS

Internal Controls

1. Internal Controls

A built-in system of procedures and record keeping designed to:

- A. Safeguard the organization's assets,
- B. Ensure the reliability of financial records,
- C. Encourage adherence to management policies and funding source requirements.

2. Audit

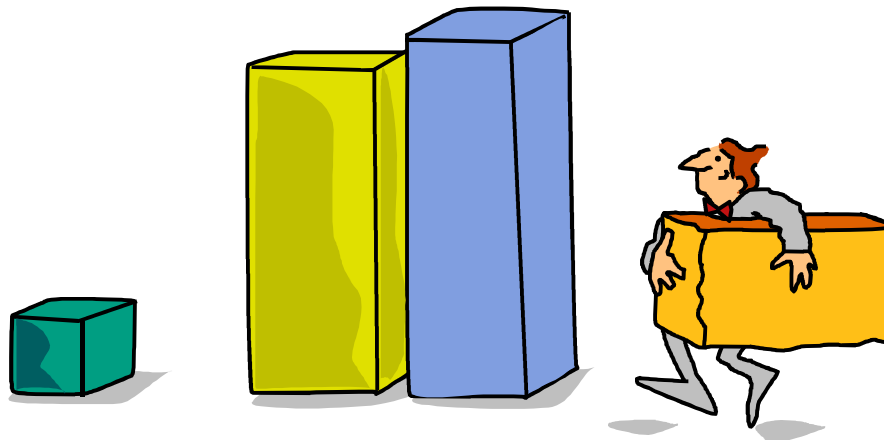
The examination of an organization's financial records and documentation by an independent CPA.

3. Fiduciary Responsibility

Trust held for the greater community.

INTERNAL CONTROLS

Objective: To **improve the quality** of information and **reduce the possibility** of error, fraud, and mismanagement.



INTERNAL CONTROLS

Key Elements

- Recordkeeping and information systems
- Separation of duties
- System of checks and balances
- Safeguarding of assets
- Policies & Procedures Manual
- Board and staff accountability
- Evaluation mechanisms
- Audit Trail

Payroll Internal Controls

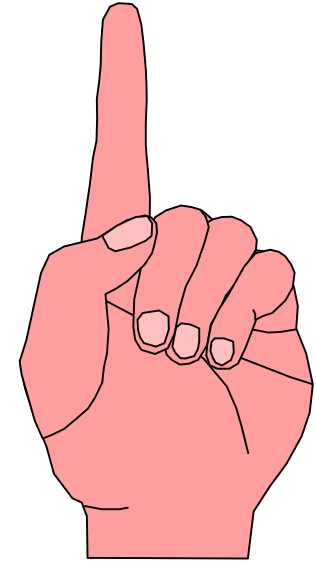
Someone other than the payroll check signer:

- **Holds** unclaimed paychecks
- **Reviews** the payroll register
- **Reviews** payroll-related tax withholding, deposits & reporting
- **Distributes** W-2's at year-end



Payroll Controls

- Are detailed **time sheets** required?
- Are time sheets **authorized** by supervisor?
- Are **employment records** maintained?
- Are **payroll-related taxes** withheld and paid on time?
- Does a director **review** payroll tax returns?
- Are there **written policies** regarding leave & benefits?
- Is there a **payroll register** listing all payroll checks?





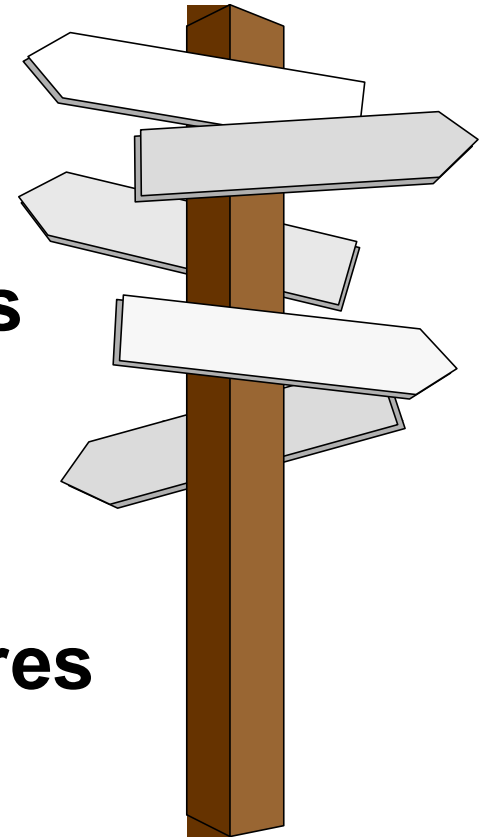
Petty Cash Controls



- Is fund used for payment of **small, incidental expenses**?
- Is there a **limit** to the amount that can be reimbursed?
- Is **supporting documentation** required?
- Is a **voucher** completed for each disbursement?
- Is **access limited** to a custodian?
- Does an **independent** person reconcile the fund?

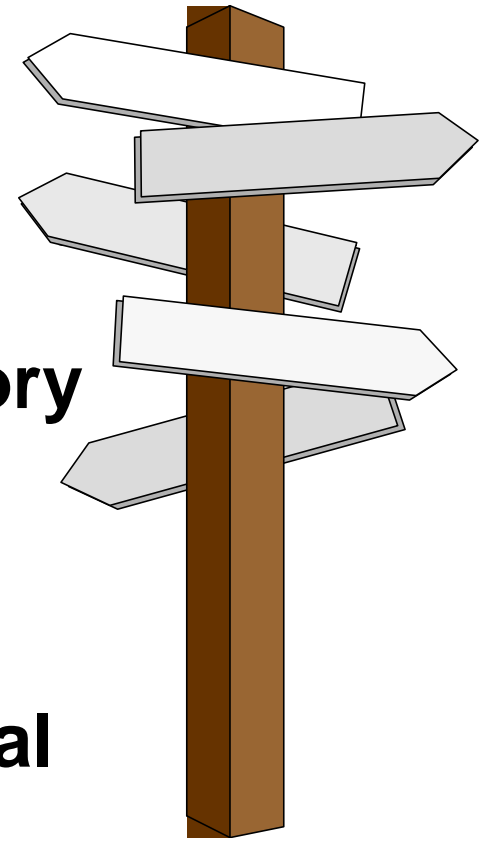
A Fiscal Policies & Procedures Manual should include descriptions of the following:

- **Distribution of accounting duties**
- **Monthly closing procedures**
- **Cost allocation policy and procedures**
- **Chart of accounts description**
- **Bank account reconciliation procedures**
- **Investment policies**
- **Check-signing procedures**



A Fiscal Policies & Procedures Manual should include descriptions of the following:

- **Travel authorization and reimbursement policies**
- **Recording of revenue procedures**
- **Payroll policies**
- **Controls over fixed assets and inventory**
- **Budget procedures**
- **Preparation and distribution of financial statements**



***"Do we need an
audit????"***



Types of Audits

- **Compilation**
- **Review**
- **Complete**

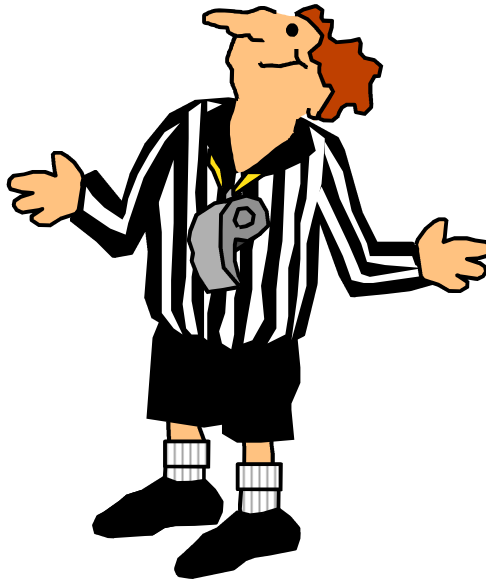


The audit process includes:

- **Testing the accounting system**
- **Reviewing internal controls**
- **Examining documentation**
- **Performing an analytical review**
- **Confirming cash accounts**
- **Testing for compliance with GAAP**
- **Compliance testing (if under OMB A-133)**



MYTH: If the auditor's report does not refer to any departure from GAAP or contain any other findings, that means the financial statements are exactly correct in every detail."



The Audit RFP

- **Describe your organization**
- **State what you need**
- **Request qualifications**
- **Describe your timetable, decision process and selection criteria**



Choosing the audit firm

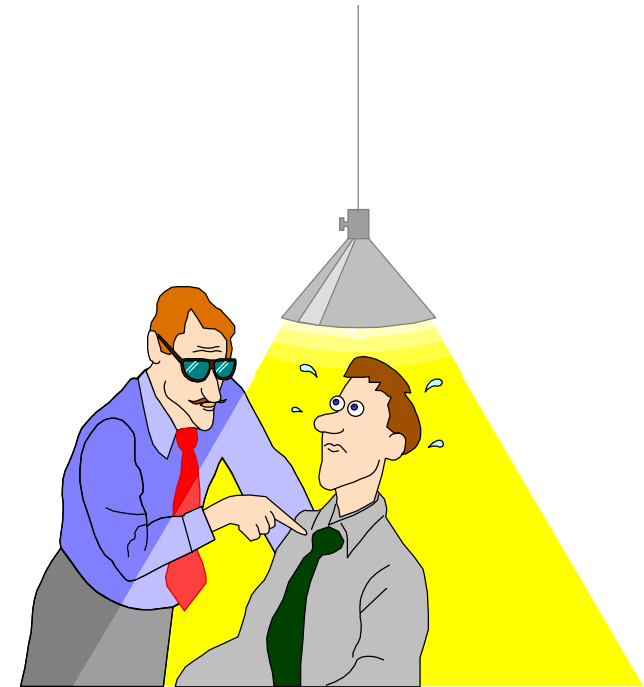
- **Price**
- **Relevant experience**
- **Cost if any for assistance other than audit**
- **Peer review**
- **Timing/availability**
- **Location**
- **Staff continuity**



AUDIT RESULTS

- Clean vs. findings

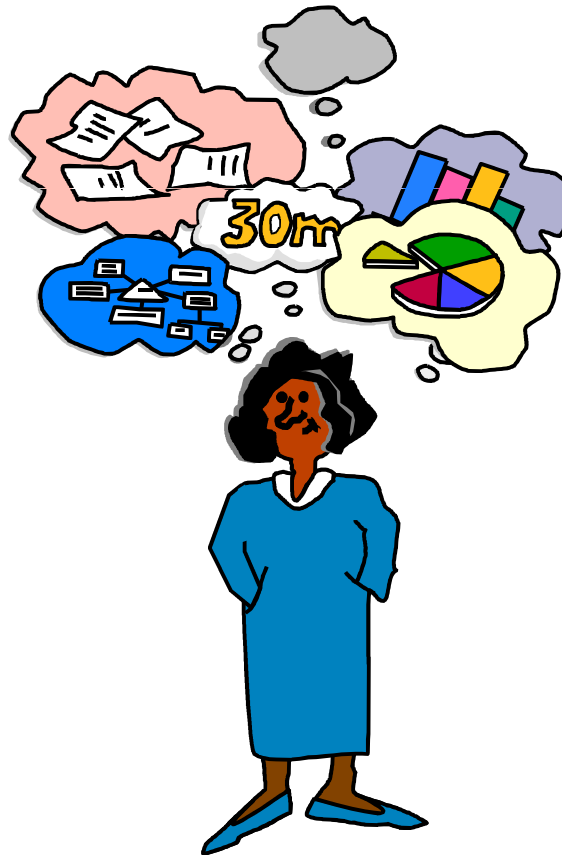
- Clean
- Qualified
- Adverse
- Disclaimer



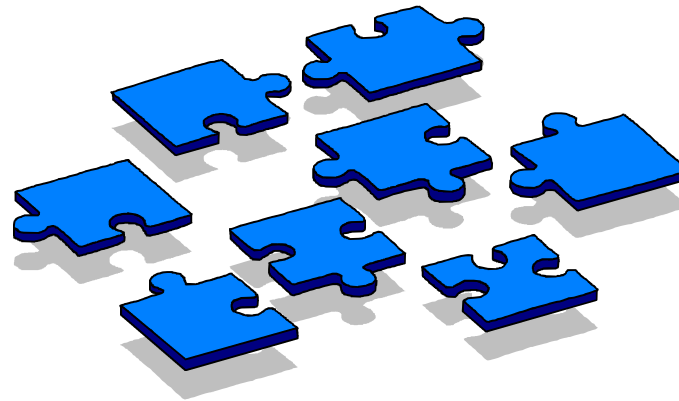
- Low risk vs. high risk auditee

- GAGAS vs. OIG

FINANCIAL REPORTS

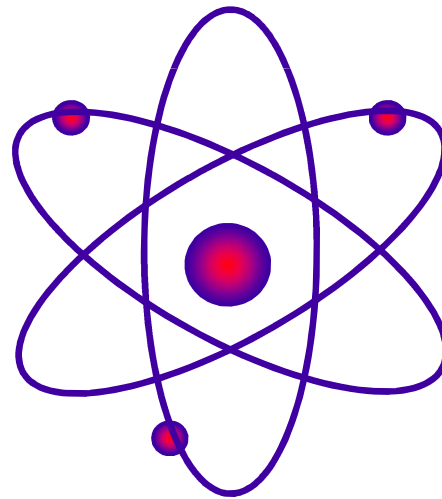


MYTH: The more details of financial activities that are provided to the governing board and management, the better they will be able to manage the organization's affairs."



"Not everything that can be counted counts and not everything that counts can be counted."

Albert Einstein



"Denial ain't just a river in Egypt."

Mark Twain



GLOSSARY OF TERMS

Financial Statements

1. GAAP

Generally Accepted Accounting Principles

2. Balance Sheet (Statement of Financial Position)

Financial statement which shows the assets, liabilities and fund balance (net assets) of an organization as of a certain date.

3. Revenue & Expense Statement (Statement of Activity)

Summary of income and expenses over a period of time with the difference stated as the *change in net assets* (fund balance).

GLOSSARY OF TERMS

Financial Statements

4. Statement of Cash Flow

Summary of where cash came from and how it was used over a period of time.

5. Statement of Functional Expenses

Summary of expenses by natural category and program.

6. Trial Balance

A list of all of the debit and credit totals in the general ledger.

7. Ratio

The comparison of one number to another expressed as a % or a formula (1:1).

Meaningful Financial Statements

- Easily comprehensible
- Concise
- All-inclusive
- Focal point for comparison
- Timely
- Accurate
- Meet the "non-accountant" test
- Be presented on the basis of GAAP
- Important trends highlighted



EXTERNAL FINANCIAL STATEMENTS

- Must represent the organization as a single entity;
- Are seen by the public;
- Must conform to GAAP and FASB regulations;
- Must include Statement of Financial Position, Statement of Activity and Statement of Cash Flows (Statement of Functional Expenses is optional)

FINANCIAL STATEMENTS AND THE ACCOUNTING EQUATION

Balance Sheet
(Statement of Financial Position)

$$\text{ASSETS} = \text{LIABILITIES} + \text{EQUITY}$$

(Revenue - Expenses)

Revenue & Expense Stmt
(Statement of Activity)
&
Statement of Functional
Expenses

Statement of Financial Position

vs.

Statement of Activity

- How well the company manages its financial resources
- Snapshot of financial condition at an instant in time
- Match sources and uses of funds



- How well the company buys and sells inventory or services
- Reports financial results over a period of time
- Match revenue and expenses



Statement of Financial Position

■ USES OF MONEY:

→ Assets

- Current
- Long Term

■ SOURCES OF MONEY:

→ Liabilities

- Current
- Long Term

→ Net Assets

USES OF MONEY MUST = SOURCES OF MONEY

(Assets = Liabilities + Net Assets)

Statement of Activity

■ REVENUE

**Restricted and
unrestricted
sources of
income**

■ EXPENSES

Categories include:

- ✓ **Programs**
- ✓ **Management &
General**
- ✓ **Fundraising**

Funds used by state and local governments

- **Governmental Funds**
 - **The General Fund**
 - **Special Revenue Funds**
 - **Capital Projects Funds**
 - **Debt Service Funds**
- **Proprietary Funds**
 - **Enterprise Funds**
 - **Internal Service Funds**
- **Fiduciary Funds**
 - **Trust and Agency Funds**

INTERNAL FINANCIAL REPORTS

- **For management and governing board;**
- **Formatted to make them useful in the decision-making process of those receiving them;**
- **May have separate reports by funder or fund or project;**
- **Comparison to budget useful.**

Financial Statements As Tools- What Questions Can They Answer?

- **Do we have a sound financial plan?**
- **Do we have enough cash?**
- **How do we look to potential lenders?**
- **Are our major expenses in line?**
- **Are we meeting our budget?**
- **Are our expenditures appropriate?**
- **Are we meeting guidelines and requirements set by funders?**
- **Did we have a gain/loss? Why? Where?**

LIQUIDITY RATIOS

1. **CURRENT RATIO** = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

2. **QUICK RATIO** = $\frac{\text{Cash} + \text{Cash Equivalents}}{\text{Current Liabilities}}$

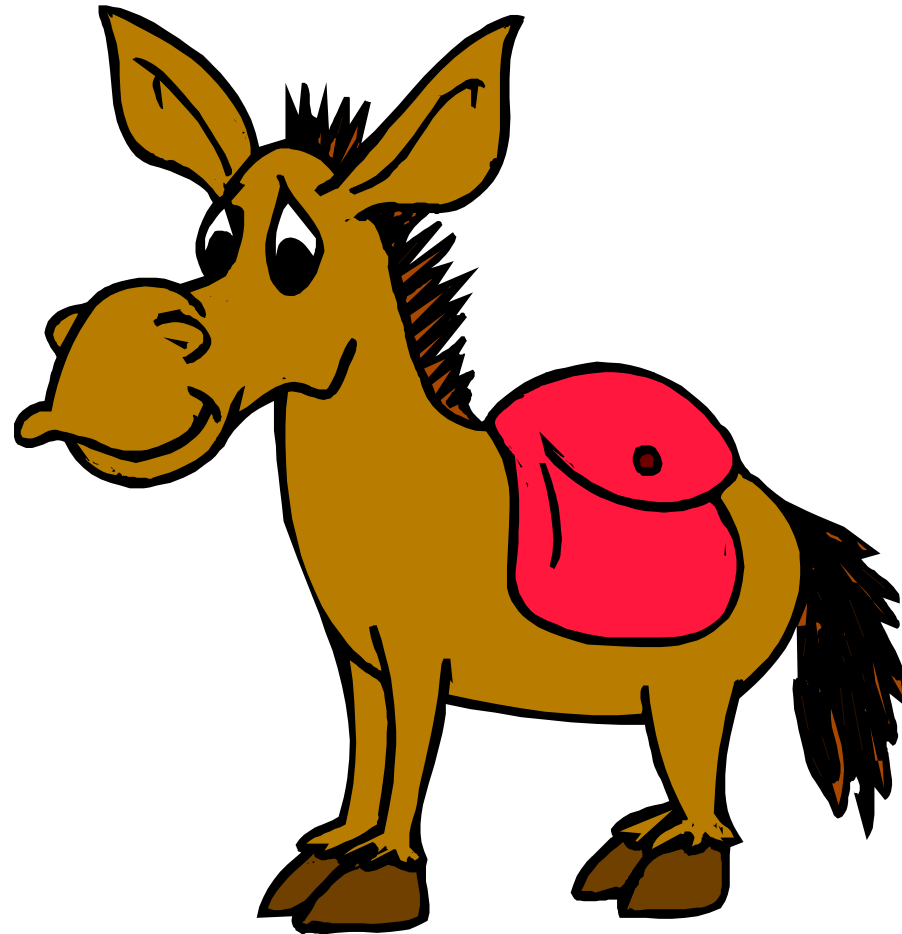
3. **DEBT-TO-NET ASSETS RATIO** = $\frac{\text{Total Debt}}{\text{Net Assets}}$



COST ALLOCATION IN A FEDERALLY-FUNDED ORGANIZATION



W.A.G.



GLOSSARY OF TERMS

Cost Allocation

1. Cost Allocation

To identify, accumulate & distribute allowable costs incurred for common or joint purposes.

2. Direct Costs

Costs that can be specifically identified with a particular grant, contract, project or pool.

3. Indirect Costs

Costs that are not readily identifiable with specific programs BUT are necessary to the general operation of the organization.

GLOSSARY OF TERMS

Cost Allocation

4. Administrative Cost

All indirect and direct costs associated with the management of an organization's programs.

5. Cost Allocation Plan

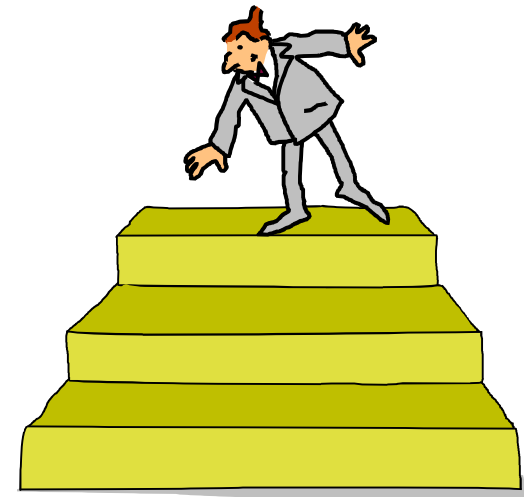
Document that identifies, accumulates, & distributes allowable direct and indirect costs and identifies the allocation method used to distribute them.

6. Indirect Cost Rate

Ratio between total indirect expenses & some direct base.

COST ALLOCATION STEPS

- **Identify costs to be allocated;**
- **Determine method of allocation**
- **Calculate regularly**
- **Enter transaction into the accounting system**



COMMON ALLOCATED COSTS

- **Salaries**
- **Fringe Benefits**
- **Travel**
- **Board Expense**
- **Supplies**
- **Rent**
- **Utilities**
- **Telephone**
- **Postage**
- **Printing/Copying**
- **Audit**
- **Legal Fees**
- **Equipment Purchase**
- **Depreciation**
- **Bank Charges**
- **Equipment Lease/Repair**

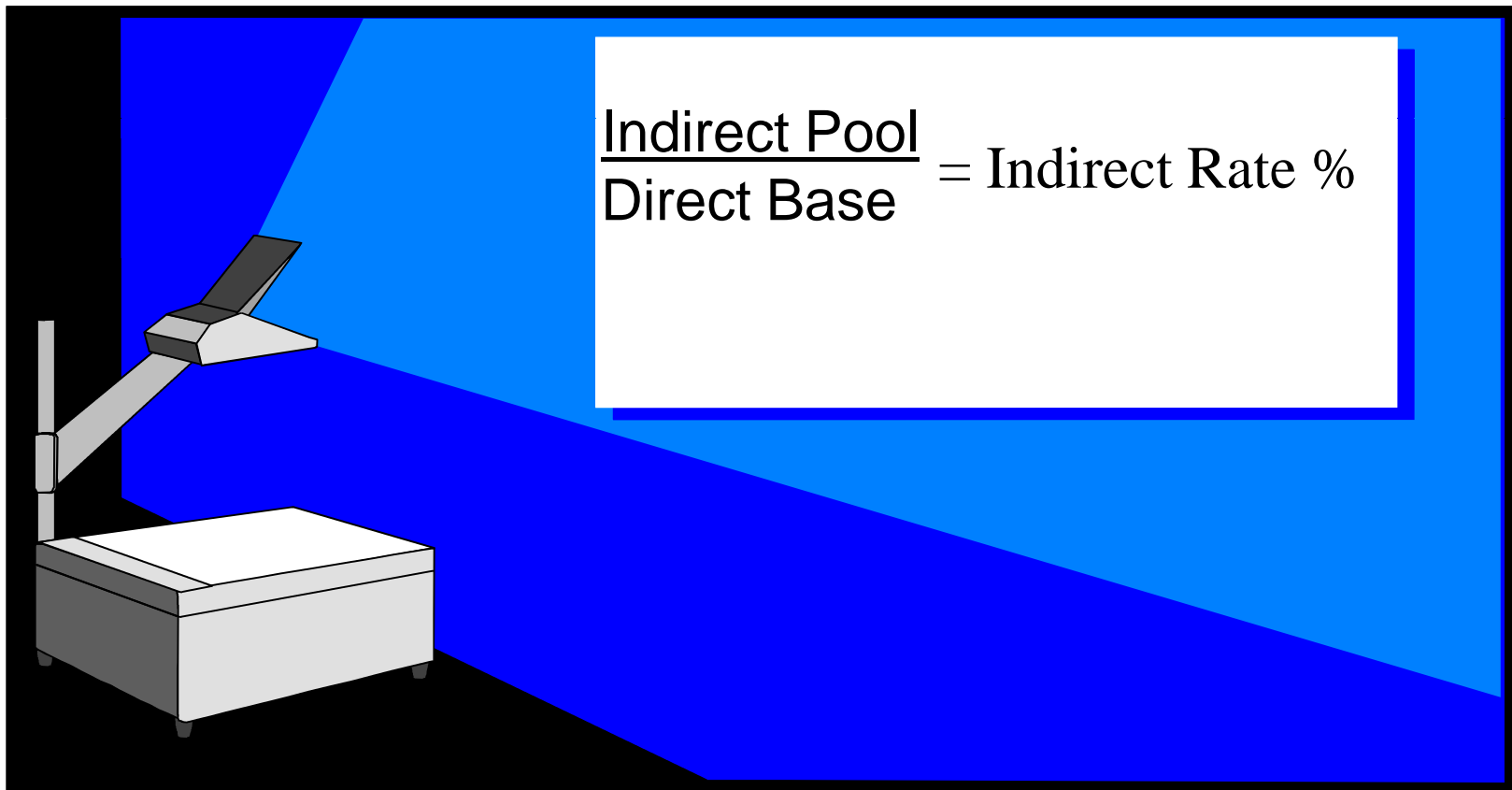
Cost Basis selected must:

- **be reasonable & consistently applied**
- **be supported by accurate & current data**
- **be appropriate to the cost**
- **result in accurate measure of benefit**



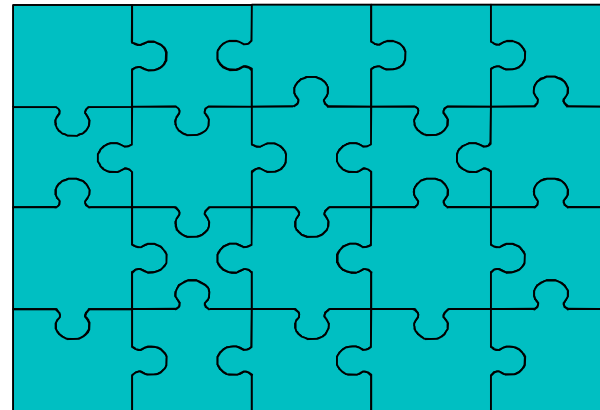
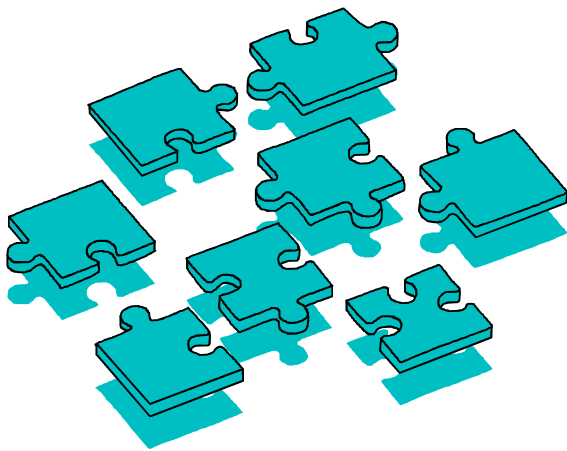
INDIRECT COST RATE

"The ratio, expressed as a percentage, of an indirect cost pool & some direct cost base."



What Does An Indirect Cost Rate Do?

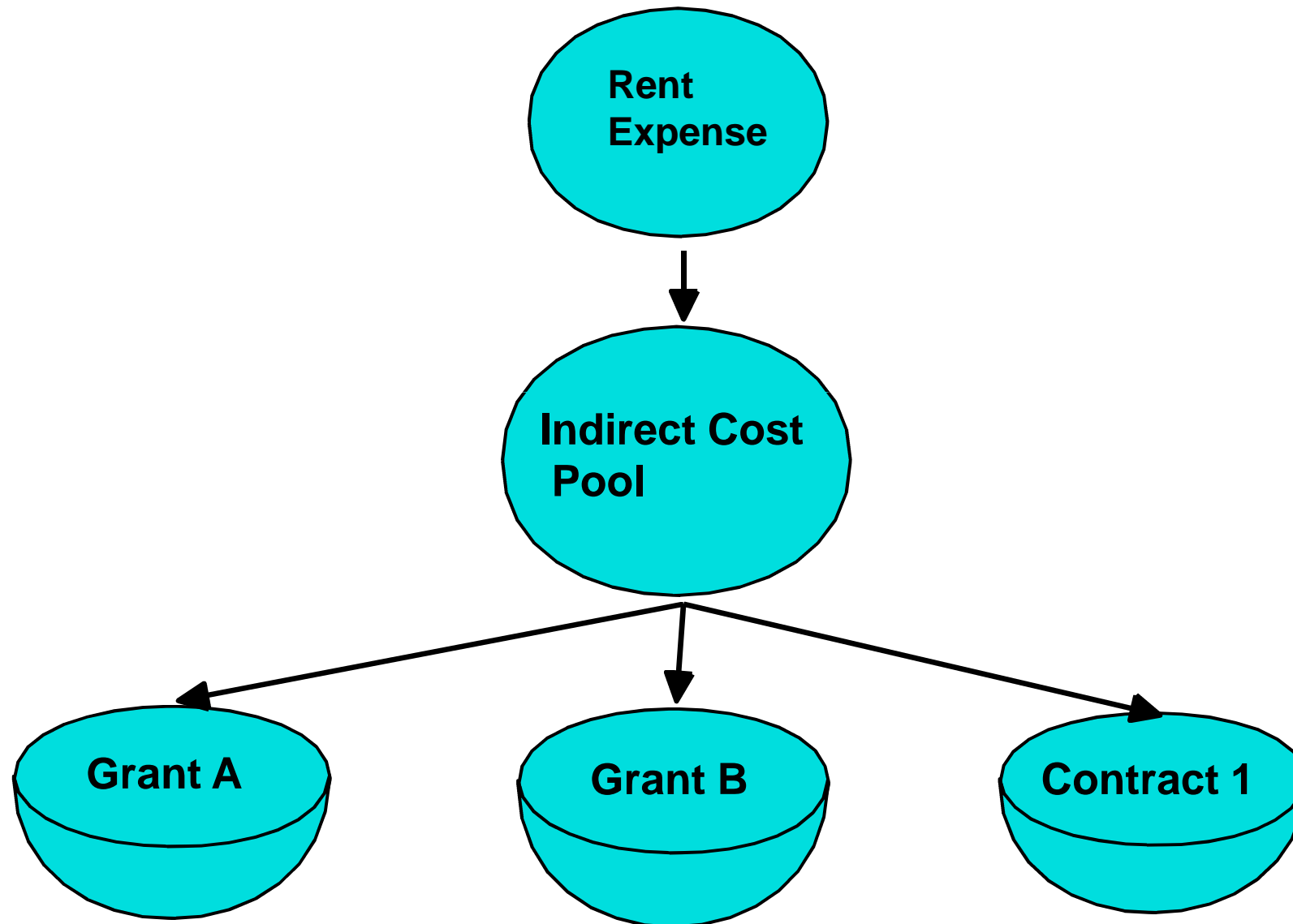
Provides **systematic**, **consistent** allocation of indirect costs to benefitting cost objectives in **reasonable** proportions with the benefits derived."



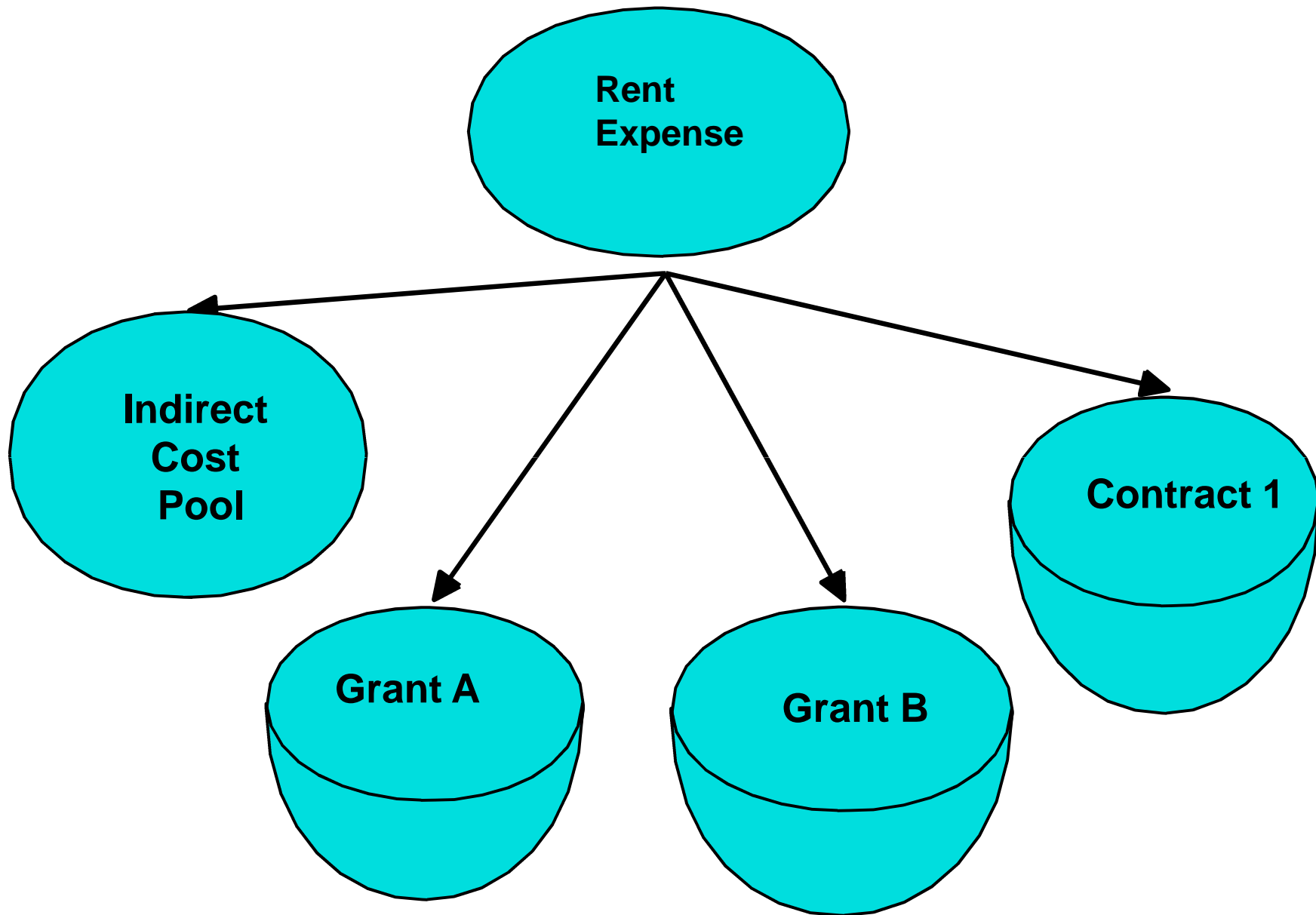
Types of Indirect Rates:

- **Provisional Rate**
- **Final Rate**
- **Predetermined Rate**
- **Fixed Rate with carry-forward**

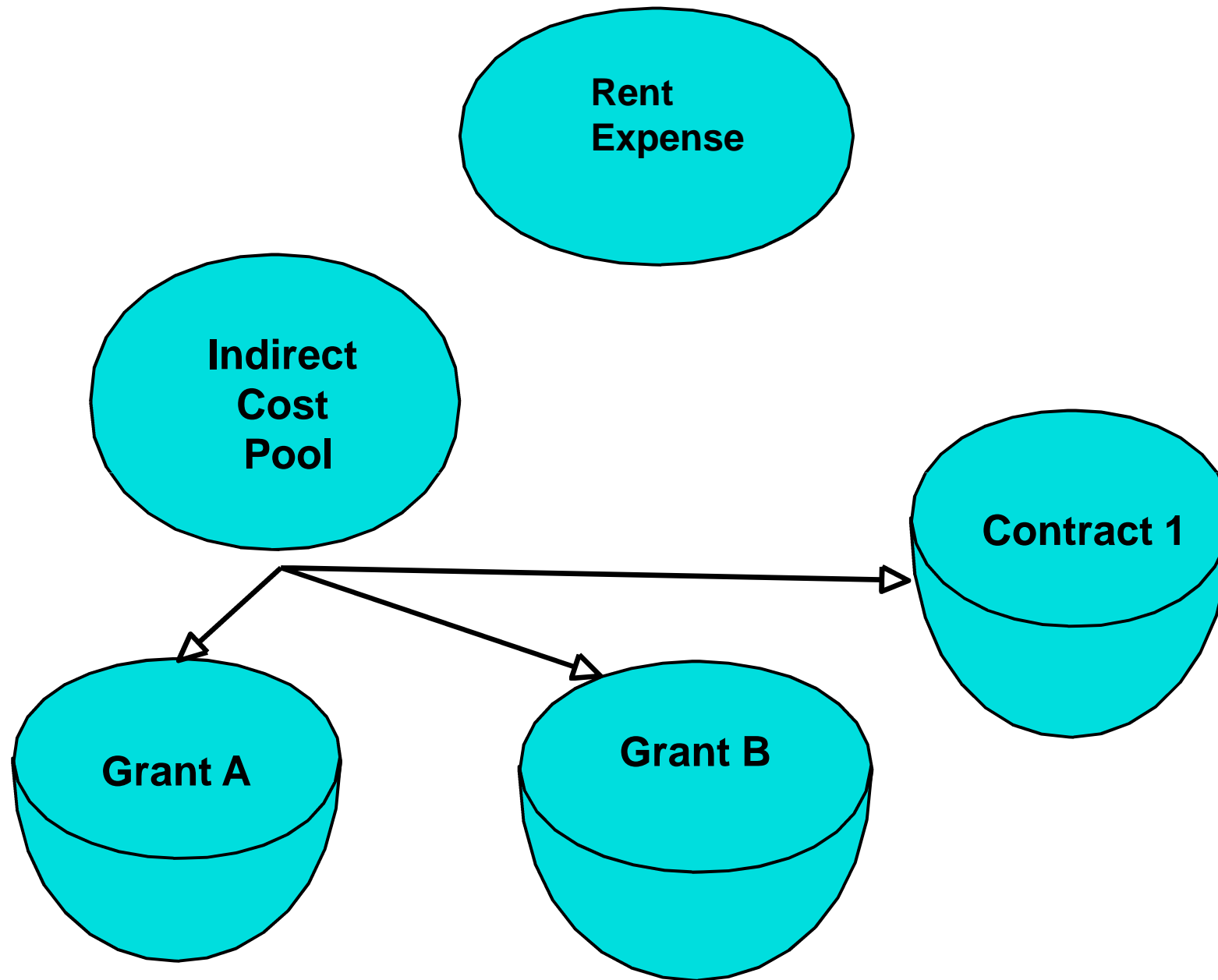
Simplified Allocation Method



Direct Allocation Method - Step 1



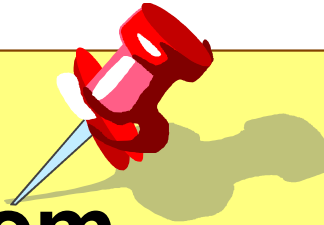
Direct Allocation Method - Step 2



**"ANY METHOD OF ALLOCATION CAN BE
USED WHICH WILL PRODUCE AN
EQUITABLE AND RATIONAL
DISTRIBUTION OF COSTS."**



COMMON COST ALLOCATION PROBLEMS



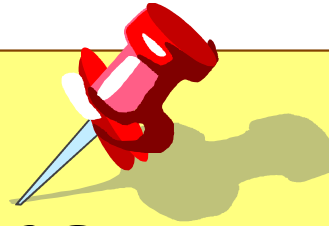
Timesheet system

Unallowable costs

Treatment of credits

Indirect cost allocation base

COMMON COST ALLOCATION PROBLEMS



Budget limitations

Unsupported costs

**Inconsistently applied allocated
costs**

UNALLOWABLE COSTS UNDER OMB A-122 and OMB A-87

- **Interest and financing
(Revised in 1995)**
- **Capital expenditures
(unless authorized)**
- **Entertainment/alcoholic
beverages**
- **Lobbying**
- **Advertising**
- **Fund raising**
- **Contributions**



COST ALLOCATION & YOUR ACCOUNTING SYSTEM

- **New General Ledger Accounts**
- **Software**
- **Method to track year-to-date indirect %**
- **Training**
- **Periodic re-evaluation of plan and bases**



BUDGETS & THE BUDGETING PROCESS



BUDGET

“A statement of the financial position of an administration for a definite period of time based on estimates of expenditures during the period and proposals for financing them.”

Webster Dictionary

BUDGETS

PURPOSE:

1. To record, in monetary terms, what the realistic **goals or objectives** of the organization are for the coming year(s)
2. To provide a **tool to monitor** the financial activities throughout the fiscal year



Types of Budgets

- **Line Item Budget**
- **Program Budget**
- **Source Budget**
- **Cash Flow Projection**
- **Capital Expenditure Budget**



GLOSSARY OF TERMS

Budgeting

1. Line Item Budget

A budget that breaks out expected revenue & expenses by chart of account line items for the organization as a whole.

2. Program Budget

A budget that breaks out expected revenue & expenses by line item AND by program.

3. Source Budget

A budget that details major funders and what each one is paying for.

GLOSSARY OF TERMS

Budgeting






4. Cash Flow Projection

A projection of timing of cash inflow and outflow to determine the need for credit or investment.






5. Capital Expenditure Budget

A budget that projects expenditures to acquire or add to a fixed asset such as land, buildings or equipment.

The Budget Process

-  **Establish the budget period**
-  **Set goals and objectives for the budget period**
-  **Estimate the cost of the required resources to accomplish goals**
-  **Estimate anticipated revenue**
-  **Plan for cash flow and cash reserves**

The Budget Process (cont'd)

-  **Adjust the budget**
-  **Approve the budget**
-  **Implement the plan and the budget**
-  **Compare revenue and expense actuals to the budget**
-  **Revise the plan and the budget as appropriate; update the cash flow**

Components of Cash Flow Projection:

- **Cash at start**
- **Cash Inflow**
- **Cash Outflow**
- **Cash at End**



To meet projected temporary cash shortage:

- **Line of credit**
- **Loan**
- **Speed up collection of receivables**
- **Require that fees be paid in advance**
- **Change timing of planned fundraising event**
- **Finance the purchase of large equipment**
- **Liquidate investments**
- **Work with funders-negotiate advance payments in lieu of cost reimbursement**
- **Delay payment to vendors**

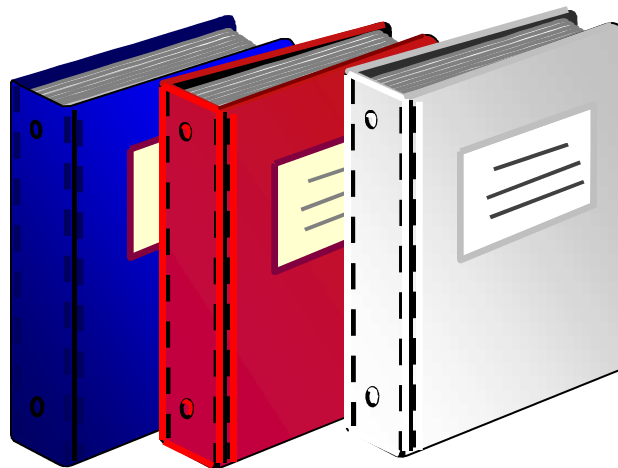


To take advantage of projected temporary cash surplus:

- **Make short-term investments**
- **Change timing of planned fundraising event or purchase of equipment**
- **Make loans**
- **Buy supplies on sale that aren't needed immediately (prepaid expenses)**



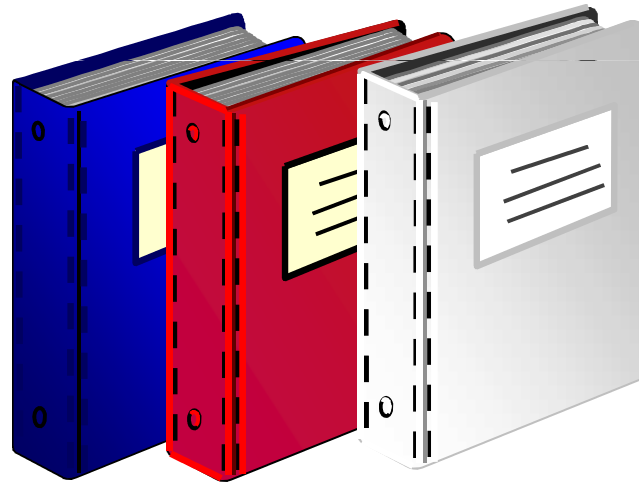
**"A BUDGET WHICH IS NEVER
CHANGED IS LIKELY TO BE A
BUDGET WHICH IS NEVER
USED."**



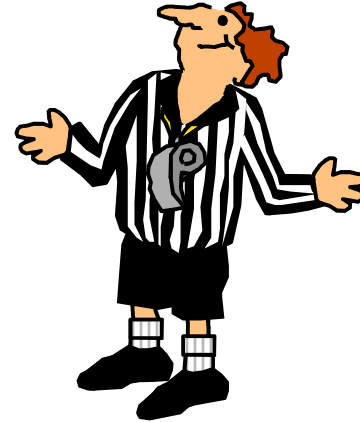
IF YOUR **OUTPUT** EXCEEDS YOUR
INPUT, THEN YOUR **UPKEEP**
WILL BE YOUR DOWNFALL.



REGULATIONS AFFECTING FEDERALLY-FUNDED ORGANIZATIONS



OMB'S Mission:



- To assist the President in overseeing the preparation of the Federal budget;
- To supervise the administration of the Federal budget in Executive Branch agencies;
- To oversee & coordinate the Administration's procurement, financial management, information and regulatory policies.

OMB Circulars

- Instructions or information issued by OMB **to federal agencies**
- Expected to have a continuing effect of **two years or more**

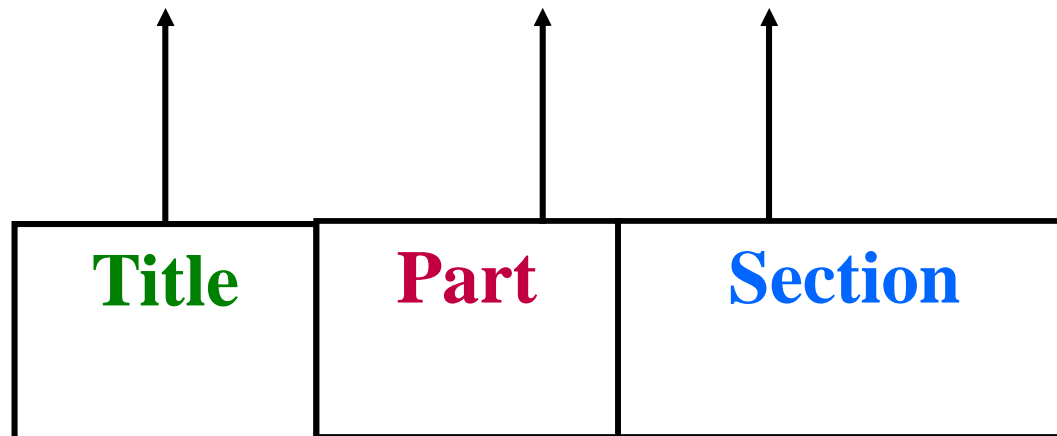


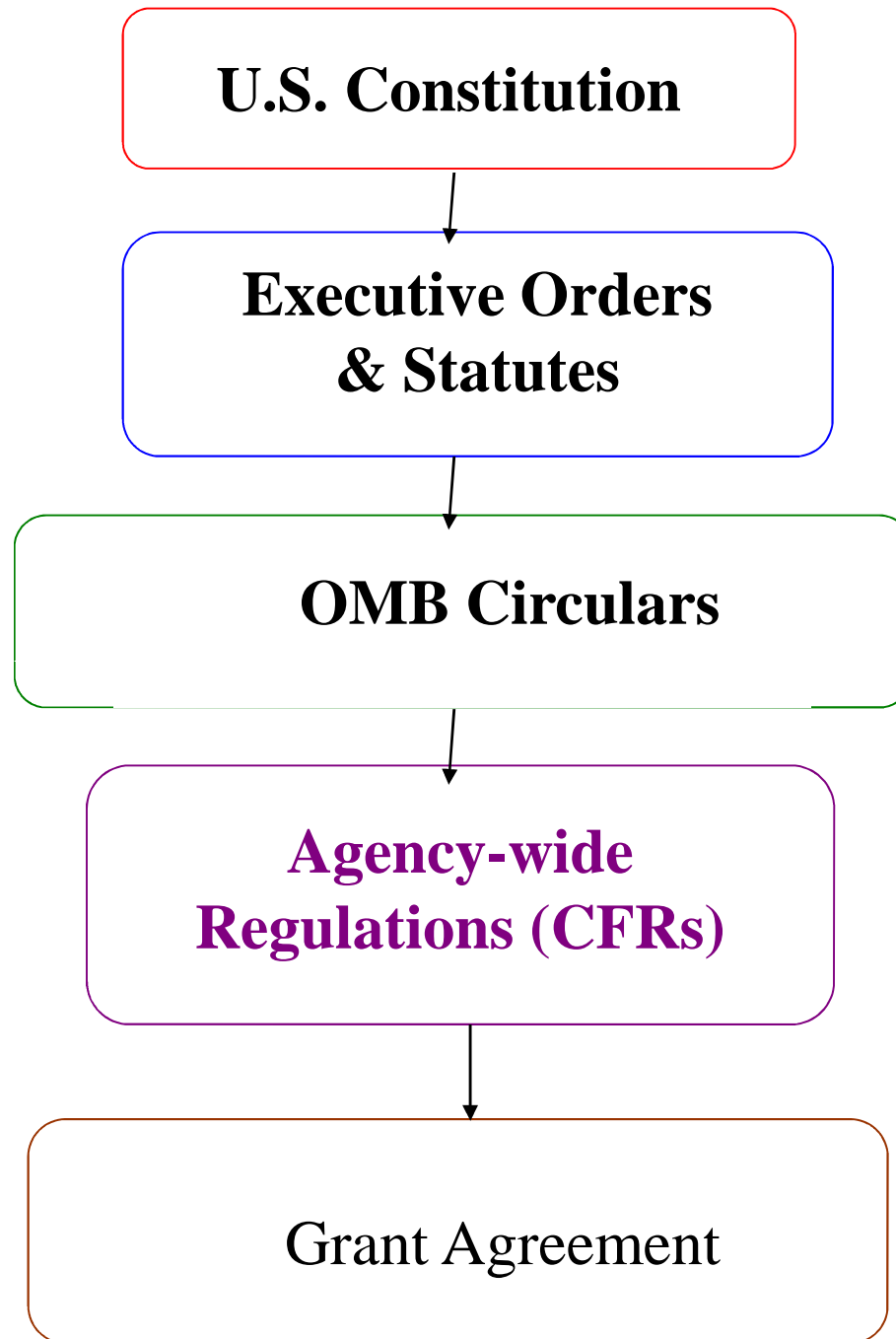
REGULATIONS`

- **OMB Circular A-110** "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations"
- **OMB Circular A-102** "Grants & Cooperative Agreements with State and Local Governments"
- **OMB Circular A-122** "Cost Principles for Non-Profit Organizations"
- **OMB Circular A-87** "Cost Principles for State, Local & Indian Tribal Governments"
- **OMB Circular A-133** "Audits of States, Local Governments, and Non-Profit Institutions"

Code of Federal Regulations

7 CFR **3019.315**





OMB CIRCULAR A-110

"Uniform Administrative Requirements for Grants & Agreements with Institutions of Higher Education, Hospitals & Other Non-Profit Organizations"

■ **Purpose:**

- Uniformity & consistency in the administration of Federal grants & agreements

■ **Applicable to:**

- Hospitals
- Institutions of higher education
- Non-profit organizations
- Subrecipients receiving grants passed through or awarded by primary recipient
- Subawards of Federal funds made by State & local governments to organizations covered by A-110

OMB CIRCULAR A-110

- **Content:**

- Subpart A - General purpose
- Subpart B - Pre-Award Requirements
- Subpart C - Post-Award Requirements
- Subpart D - After-the-Award Requirements
- Appendix A - List of requirement provisions

- **Latest Revision:** August 29, 1997



OMB CIRCULAR A-102

"Grants & Cooperative Agreements with State & Local Governments"

■ **Purpose:**

- Uniformity & consistency in the management of grants & cooperative agreements (similar to Circular A-110)

■ **Applicable to:**

- State governments
- Local governments
- Federally-recognized Indian tribal governments



OMB CIRCULAR A-102

- **Content:**

- **Pre-Award Policies**
- **Post-Award Policies**
- **After-the-grant Policies**

- **Latest Revision: October 7, 1994**



OMB CIRCULAR A-87

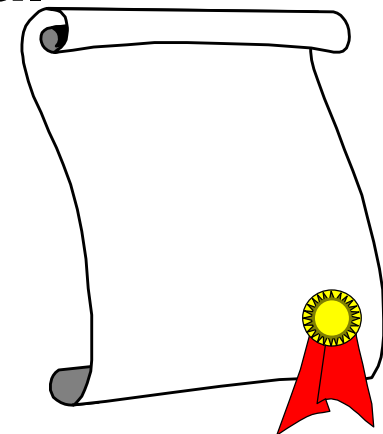
"Cost Principles for State, Local & Indian Tribal Governments"

■ **Purpose:**

- Establish principles for determining costs for Federal awards (similar to A-122)
- Promote effective program delivery between governmental units and the Federal government

■ **Applicable to:**

- State governments
- Local governments
- Federally-recognized Indian tribal governments



OMB CIRCULAR A-87

■ **Content:**

- **Attachment A** - General principles for determining allowable cost
- **Attachment B** - Selected items of cost
- **Attachment C** - State/Local-Wide central service cost allocation plans
- **Attachment D** - Public assistance cost allocation plans
- **Attachment E** - State & Local indirect cost rate proposals

■ **Latest Revision: May 4, 1995**

OMB CIRCULAR A-122

"Cost Principles for Non-Profit Organizations"

- **Purpose:**

- Principles for determining costs so that Federal government pays its fair share of allowable costs

- **Applicable to:**

- All Federal agencies in determining the cost of work performed by non-profit organizations under a Federal award
 - All cost reimbursement subawards



OMB CIRCULAR A-122

- **Content:**

- ➔ Attachment A - General Principles
- ➔ Attachment B - List of costs & principles to be applied
- ➔ Attachment C - List of non-profit organizations not subject to A-122

- **Latest Revision:** June 1, 1998

- **Latest Major Changes:**

- ➔ Capitalization threshold
- ➔ Allowable interest



OMB CIRCULAR A-133

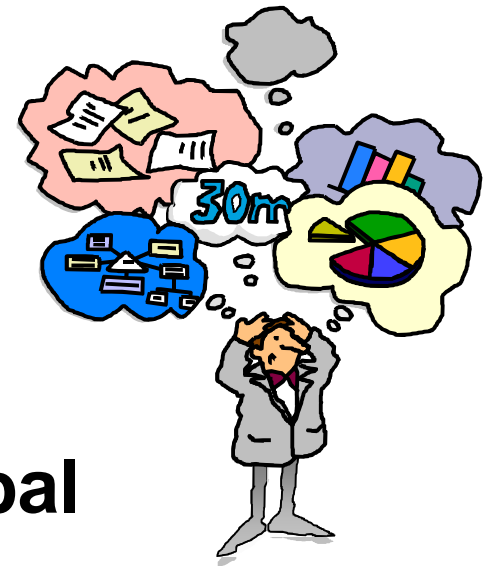
"Audits of States, Local Governments & Non-Profit Organizations"

■ **Purpose:**

→ Consistency & uniformity for the audit of non-Federal entities that expend Federal awards

■ **Applicable to:**

→ Non-profit organizations
→ State governments
→ Local governments
→ Federally-recognized Indian tribal governments



OMB CIRCULAR A-133

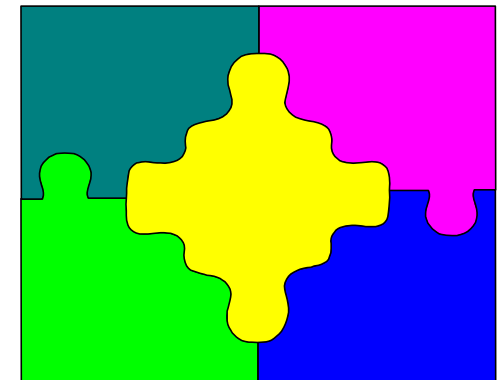
“Grantees that **expend** \$300,000 or more in ***federal financial assistance*** must have a ***single audit*** or program-specific audit.”

OMB CIRCULAR A-133

■ **Content:**

- **Subpart A** - Definitions of terms
- **Subpart B** - Audit requirements
- **Subpart C** - Auditee (recipient) responsibilities
- **Subpart D** - Federal & passthrough entity responsibilities
- **Subpart E** - Auditor's responsibilities

■ **Latest Revision:** June 30, 1997



OMB CIRCULAR A-133

PURPOSE OF AUDIT

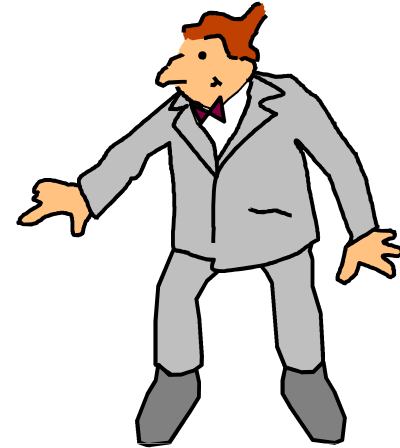
To determine whether:

- Financial statements fairly present organization's financial position in accordance with GAAP;
- Organization has internal accounting and other control systems;
- Organization is in compliance with laws, regulations and agreements.

OMB CIRCULAR A-133

■ Latest Major Changes:

- Rescinds A-128
- Increases threshold to \$300,000
- Shortens due date to 9 months
- Streamlines filing requirements
- Introduces risk-based approach
- Guidance for program-specific audits



24CFR85.20

- **Title 24 – HUD**
- **Part 84 –Administrative Requirements for Grants and Cooperative Agreements to State and Local Govts; Subpart C – Post-Award Requirements**
- **Section 85.20 – Standards for financial management systems**

24CFR85.20

- **Accurate, current and complete disclosure**
- **Accounting Records: Records that identify adequately the source & application of funds**
- **Internal Control: Effective control and accountability**
- **Budget Control: Comparison of outlays with budgeted amounts for each grant**

24CFR85.20

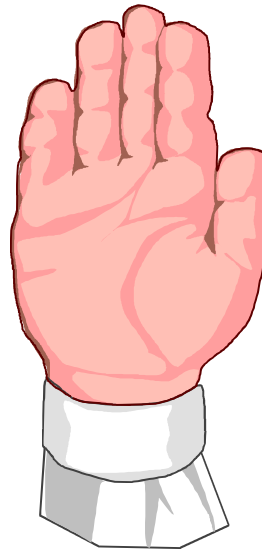
- **Allowable Cost: Reasonableness, allowability and allocability of costs per OMB cost principles**
- **Source Documentation: Accounting records supported by documentation**
- **Cash Management: Procedures for minimizing the time elapsed between transfer of funds and disbursement when advance received**

24CFR84.21

- **Title 24 – HUD**
- **Part 84 –Administrative Requirements for Grants and Agreements with ...other Non-Profit Organizations; Subpart C – Post-Award Requirements**
- **Section 84.21 – Standards for financial management systems**

Code of Federal Regulations website:
<http://www.access.gpo.gov/nara/cfr/index.html>

MYTH: Accountants for not-for-profit organizations never have to worry about the Internal Revenue Service."



941

990

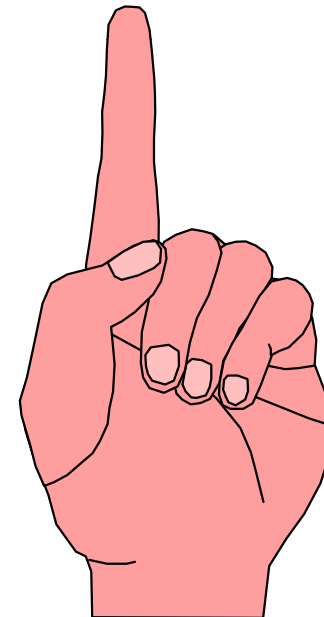
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940

IRS FORM 990 – Return of Organization Exempt From Income Tax

- **Information return filed annually if annual receipts average more than \$25,000 per fiscal year over the previous three years.**
- **Most available at www.guidestar.org.**



IRS FORM 990 – “Return of Organization Exempt From Income Tax”



- **Fiscal year**
- **Type of nonprofit**
- **Cash vs. accrual**
- **Revenue sources**
- **Categories of expenses**
- **Net assets breakdown**
- **Programs & purpose**
- **# of employees**
- **Board members**
- **Employee and contractor compensation**
- **Changes in activities**
- **Organization's books**
- **Self-dealing activities**
- **Lobbying activities**

Unrelated Business Income is:

- Income from a trade or business;
- The trade or business is regularly carried on by the organization; and
- The conduct of the trade or business is *not substantially related to the organization's exempt purpose.*



Activities not considered unrelated trade or businesses by the IRS:

- **Activities conducted by volunteers**
- **Sales of merchandise contributed to the organization**
- **Public entertainment activities at state or local fairs**
- **Certain convention and trade show activities**
- **Distribution of low cost articles**
- **Exchanges and rentals of member lists between charitable, educational or scientific 501(c)3 organizations**

MYTH: "If we would have to pay unearned business income tax on the net income of a fund-raising activity, we shouldn't conduct the activity."



RISK MANAGEMENT

- **What can go wrong?**
- **What will we do to prevent it or in the aftermath of an incident**
- **If something happens, how will we pay for it?**

Independent Contractors vs. Employees

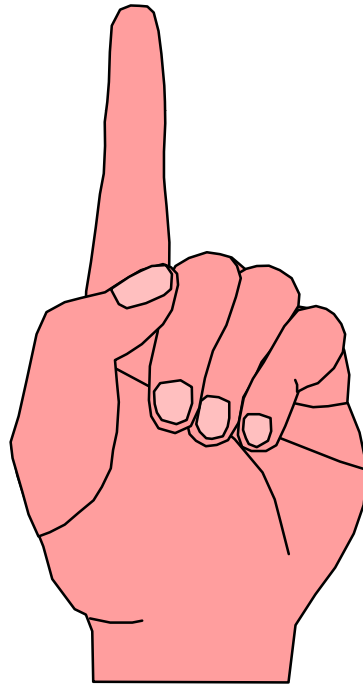
EMPLOYEE

- Employer controls or directs the result of the work and the means and methods of accomplishing the result
- Works on-site or using the organization's equipment
- Works exclusively for one organization
- Works hours specified by the organization

CONTRACTOR

- Hiring and firing own staff
- Registers business name (dba)
- Has business license
- Invests time and \$ in o-going training and reference books
- Maintains an identifiable work location

**“I have enough money to
last the rest of my life,
unless I buy something.”**





Changes in accounting rules for not-for-profits - SFA 116 & 117

- **WHO** changed the rules?
- **WHO** do they affect?
- **WHY** were the rules changed?
- **WHEN** did the new rules take affect?
- **WHAT** are the new requirements?

SFA 116

Old Practices

- Contributions are recorded as liabilities (deferred revenue) until expended unless unrestricted
- Pledges are not recorded as revenue until funds are received

New Requirements

- 100% of restricted contribution recorded as temporarily restricted revenue when received
- Unconditional pledges are recorded as revenue when documentation of pledge is received

SFA 116 (cont'd)

Old Practices

- Funds received & passed through to recipient identified by the donor is recorded as revenue and expense by the intermediary agency

New Requirements

- Funds considered "asset transfers" are recorded only as balance sheet entries

SFA 116 (cont'd)

Old Practices

- All material volunteer in-kind services are recorded as revenue and equal expense
- Pledges are recorded at the total pledge amount

New Requirements

- Volunteer in-kind services only recorded as revenue and expense if they meet one of two criteria
- Pledges are recorded at present value when received

SFA 117

Old Practices

- Fund balance
- Balance Sheet
- Statement of Revenue and Expense
- Statement of Cash Flows optional

New Requirements

- Net Asset
- Statement of Financial Position
- Statement of Activities
- Statement of Cash Flows required

SFA 117 (cont'd)

Old Practices

- Financial statements by fund or program
- Net assets divided by unrestricted and restricted categories
- Expenses reported by type of revenue (restricted/unrestricted)

New Requirements

- Financials for organization as a whole required
- Net Assets are divided into 3 classes determined by donor-imposed restrictions
- All expenses are considered unrestricted

SFA 117 (cont'd)

Old Practices

- Organizations are allowed to report expenses by natural or functional categories

New Requirements

- Organizations must report by functional categories either in the statement or in the notes to the financial